

DEPARTMENT OF LAND AND NATURAL RESOURCES  
STATE OF HAWAII

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2003

Akamine, Oyadomari & Kosaki  
Certified Public Accountants, Inc.

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# Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

May 14, 2004

Mr. Peter T. Young, Chairperson  
Board of Land and Natural Resources  
State of Hawaii

Dear Mr. Young:

This is our report on the audit of the financial statements of the Department of Land and Natural Resources, State of Hawaii, for the year ended June 30, 2003. Our audit was performed in accordance with the terms of our contract with the Department and with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and the OMB Circular A-133 Compliance Supplement.

## OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of Land and Natural Resources, State of Hawaii's financial statements for the year ended June 30, 2003, and to comply with the requirements of OMB Circular A-133, which established audit requirements for states, local governments and non-profit organizations that receive federal awards.

More specifically, the objectives of the audit were as follows:

1. To satisfy the audit requirements of OMB Circular A-133.
2. To provide a basis for an opinion on the fairness of the presentation of the Department of Land and Natural Resources, State of Hawaii's, financial statements.
3. To determine whether expenditures have been made and all revenues and other receipts to which the Department of Land and Natural Resources, State of Hawaii, is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and, where applicable, the Federal government.

4. To evaluate the adequacy of the Department of Land and Natural Resources, State of Hawaii's, internal control over financial reporting to determine whether there is effective control over and proper accounting of revenues, expenditures, disbursements, assets, liabilities and federal award programs and to comply with the applicable laws and regulations.
5. To determine whether the Department of Land and Natural Resources, State of Hawaii, has complied with the provisions of the federal grant agreements and applicable laws, regulations, and circulars with regard to grant activities.

#### SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of Land and Natural Resources, State of Hawaii for the year ended June 30, 2003. In addition, as part of our determination as to whether the Department of Land and Natural Resources, State of Hawaii, has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets and liabilities we considered the internal control over financial reporting. We also performed tests to determine the Department of Land and Natural Resources, State of Hawaii's, compliance with the fiscal provisions of its grant agreements and applicable laws, regulations and federal circulars.

#### ORGANIZATION OF THE REPORT

This report is presented in three parts as follows:

- Part I - Financial section
- Part II - Compliance and internal control.
- Part III - Schedule of findings and questioned costs.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the staff of the Department of Land and Natural Resources, State of Hawaii.

Sincerely,

*Abbasine Ogasawara + Masahiro CPA's, Inc.*

**The Department of Land and Natural Resources  
State of Hawaii**

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**The Department of Land and Natural Resources  
State of Hawaii**

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PART I  
FINANCIAL SECTION

## FINANCIAL STATEMENTS

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# Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

## Independent Auditor's Report

Board of Land and Natural Resources  
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii, as of and for the year ended June 30, 2003, which collectively comprise the Department's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department of Land and Natural Resources, State of Hawaii. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements of the Department of Land and Natural Resources, State of Hawaii, are intended to present the financial position, the changes in financial position and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2003, the changes in financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii, as of June 30, 2003, the respective changes in financial position thereof and the respective budgetary comparisons for the general fund and other major funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note E to the financial statements that were applied to restate the June 30, 2002 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.



The Management's Discussion and Analysis on pages 10 through 21 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Land and Natural Resources, State of Hawaii's, basic financial statements. The information on the Combining Balance Sheet – Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The Combining Balance Sheet – Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2004 on our consideration of the Department of Land and Natural Resources, State of Hawaii's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Akamine, Oyadomari & Kosaki CPAs, Inc.*

Honolulu, Hawaii  
April 28, 2004



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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HONOLULU, HAWAII 96809

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

As management of the Department of Land and Natural Resources (the DLNR), we offer readers of these financial statements this narrative overview and analysis of the financial activities of DLNR for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the financial statements, which follows this section.

**FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2003**

- The assets of the DLNR exceeded its liabilities at June 30, 2003, by \$287.3 million. Of this amount, \$95.6 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of the close of the current fiscal year, the DLNR's governmental funds reported combined ending balance of \$101.4 million. Approximately \$6.3 of this total amount is unreserved and available for use within the DLNR's designation and policies.
- During the year, the DLNR's total revenue was \$96.1 million and expenses totaled \$81.8 million.
- The DLNR received its initial million dollars from the Transient Accommodations Tax Trust Fund as a result of Act 250, SLH 2002.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the DLNR basic financial statements. The basic financial statements are comprised of three (3) components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information. These components are described below:

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the DLNR's finances, in a manner similar to a private-sector business. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Assets* presents information on all of the DLNR's assets and liabilities, with the difference between the two reported as "net assets". Increases and decreases in the net assets serve as a useful indicator of whether the financial position of the DLNR is improving or deteriorating.
- The *Statement of Activities* presents information showing how the DLNR's net assets changed during the most recent fiscal year.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the DLNR's most significant funds and not the DLNR as a whole. The financial activities of the DLNR are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis- for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

The DLNR has two types of funds: governmental funds and fiduciary funds.

- **Governmental Funds:** These funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well on balances of spendable resources available at the end of the fiscal year.

The financial activities of the DLNR reported in the governmental fund financial statements are classified into the following major governmental funds:

- **General Fund -** The general fund is the operating fund of the DLNR. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.
- **Special Revenue Funds -** Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

- Capital Project Fund - The capital project fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities.
- Expendable Trust Funds: - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes.
- Fiduciary Funds: These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information including combining financial statements referred to earlier in connection with non-major Governmental Funds.

**DEPARTMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, changes in net assets may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2003, the DLNR's total net assets were approximately \$287.3 million.

The largest part of the DLNR's net assets reflects its investment in capital assets (land, buildings, improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The DLNR uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the DLNR's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

The following is a comparative statement of net assets:

Summary of Statement of Net Assets  
(in millions)

	2003	2002	Increase (Decrease)
Cash and short term investments	\$ 119.5	\$ 133.5	\$ (14.0)
Receivables	2.8	2.3	0.5
Capital assets	200.8	191.8	9.0
Total assets	<u>\$ 323.1</u>	<u>\$ 327.6</u>	<u>\$ (4.5)</u>
Current liabilities	23.5	23.2	0.3
Long-term liabilities	12.3	12.5	(0.2)
Total liabilities	<u>35.8</u>	<u>35.7</u>	<u>0.1</u>
Invested in capital assets, net of related debt	191.7	181.8	9.9
Unrestricted	95.6	110.1	(14.5)
Total net assets	<u>287.3</u>	<u>291.9</u>	<u>(4.6)</u>
Total liabilities and net assets	<u>\$ 323.1</u>	<u>\$ 327.6</u>	<u>\$ (4.5)</u>

DLNR's net assets decreased by \$ 4.6 million during the fiscal year ended June 30, 2003. An increase of \$4.5 million in cash and investments of the Kaho'olawe Rehabilitation Trust Fund was offset by the transfer out of \$20.5 million of special funds to the State General Fund. A \$2 million increase in cash and investments, distributed among the remaining governmental fund groups, resulted in a total net decrease of \$14 million in cash and short-term investments. Adding an increase of \$.5 million in federal grant receivables and approximately \$9 million in capital assets accounts for the total net decrease of \$4.6 million in net assets. Changes in capital assets are detailed in Note E of the financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2003:

	Changes in Net Assets (in millions)		
	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Program revenue			
Interest, rents and fees	\$ 27.3	\$ 24.5	\$ 2.8
Operating grants and contributions	21.2	19.9	1.3
State allotted appropriations, net of lapses	<u>39.0</u>	<u>38.7</u>	<u>0.3</u>
<b>Total revenue</b>	<u>87.5</u>	<u>83.1</u>	<u>4.4</u>
 Total expenses	 <u>80.1</u>	 <u>64.9</u>	 <u>15.2</u>
 Excess before transfers	 7.4	 18.2	 (10.8)
 Transfers	 <u>(41.4)</u>	 <u>(0.3)</u>	 <u>(41.1)</u>
 Change in net assets	 (34.0)	 17.9	 (51.9)
 Net assets - beginning	 291.9	 274.0	 17.9
Restate construction in progress	<u>29.4</u>	<u>-</u>	<u>29.4</u>
Net assets - beginning, restated	<u>321.3</u>	<u>274.0</u>	<u>47.3</u>
 Net assets - end of year	 <u>\$ 287.3</u>	 <u>\$ 291.9</u>	 <u>\$ (4.6)</u>

Revenues of the DLNR consist of state appropriations, charges for services, program investment income and federal grants. Charges for services consist primarily of rent from leases, licenses and permits from public lands, and fuel taxes. The investment income is from income earned within the program funds that are invested by the State Director of Finance.

Total expenditures increased by \$15.2 million with the largest component being an increase of \$12.4 million in capital outlays from \$3.1 million in 2002 to \$15.5 million in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

Net transfers of \$41.4 million in 2003 included \$21.1 million of capital assets turned over to other government agencies upon their completion and \$20.5 million in special funds paid to the State General Fund. The larger fund transfers were from the Special Land Development Fund for \$13.1 million and the Bureau of Conveyances Special Fund for \$5.5 million.

In the prior year, the DLNR did not capitalize non-DLNR construction projects. The net asset beginning balance on July 1, 2002 has been restated by adding \$29.4 million to properly include these non-DLNR project costs.

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. As noted earlier, the DLNR uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements.

Comparison of Balance Sheets  
(in millions)

	Assets			Liabilities			Fund Balances		
	2003	2002	Change	2003	2002	Change	2003	2002	Change
General Fund	\$ 2.1	\$ 2.2	\$ (0.1)	\$ 2.0	\$ 2.1	\$ (0.1)	\$ 0.1	\$ 0.1	\$ -
Federal Grant Fund	8.0	7.7	0.3	10.8	10.2	0.6	(2.8)	(2.5)	(0.3)
Special Land Development Fund	10.0	21.5	(11.5)	0.7	0.6	0.1	9.3	21.0	(11.7)
Ocean-Based Recreation Fund	2.1	2.3	(0.2)	3.6	3.9	(0.3)	(1.5)	(1.6)	0.1
Kaho'olawe Rehabilitation Trust Fund	33.7	29.1	4.6	0.3	1.4	(1.1)	33.4	27.7	5.7
Capital Projects Fund	49.9	56.0	(6.1)	1.9	1.0	0.9	48.0	54.9	(6.9)
Other Funds	16.6	17.0	(0.4)	1.7	0.8	0.9	14.9	16.2	(1.3)
<b>Total</b>	<b>\$ 122.4</b>	<b>\$ 135.8</b>	<b>\$ (13.4)</b>	<b>\$ 21.0</b>	<b>\$ 20.0</b>	<b>\$ 1.0</b>	<b>\$ 101.4</b>	<b>\$ 115.8</b>	<b>\$ (14.4)</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

## Comparison of Statement of Revenues, Expenditures and Changes in Fund Balances (in millions)

	Revenues			Expenditures			Transfers			Lapsed Appropriations			Net Changes in Fund Balances		
	2003	2002	Change	2003	2002	Change	2003	2002	Change	2003	2002	Change	2003	2002	Change
General Fund	\$ 27.2	\$ 26.6	\$ 0.6	\$ 24.7	\$ 26.3	\$ (1.6)	\$ (0.8)	\$ (0.3)	\$ (0.5)	\$ (1.7)	\$ (1.6)	\$ (0.1)	\$ -	\$ (1.6)	\$ 1.6
Federal Grant Fund	11.4	10.8	0.6	11.7	9.6	2.1	(0.1)	-	(0.1)	-	-	-	(0.4)	1.2	(1.6)
Special Land															
Development Fund	6.3	6.1	0.2	4.9	4.2	0.7	(13.0)	(1.7)	(11.3)	-	-	-	(11.6)	0.2	(11.8)
Ocean-Based															
Recreation Fund	9.6	10.0	(0.4)	8.7	9.5	(0.8)	(0.9)	(0.9)	-	-	-	-	-	(0.4)	0.4
Kaho'olawe															
Rehabilitation Trust															
Fund	9.3	8.3	1.0	3.6	3.1	0.5	-	-	-	-	-	-	5.7	5.2	0.5
Capital Projects Fund	20.8	29.5	(8.7)	19.4	10.7	8.7	(1.5)	0.6	(2.1)	(6.8)	(15.0)	8.2	(6.9)	4.4	(11.3)
Other Funds	11.5	9.0	2.5	8.8	6.4	2.4	(3.9)	1.9	(5.8)	-	-	-	(1.2)	4.5	(5.7)
Total	\$ 96.1	\$100.3	\$ (4.2)	\$ 81.8	\$ 69.8	\$ 12.0	\$ (20.2)	\$ (0.4)	\$ (19.8)	\$ (8.5)	\$ (16.6)	\$ 8.1	\$ (14.4)	\$ 13.5	\$ (27.9)



## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a \$1 million deficit in the unreserved fund balance of the General Fund. The deficit resulted from recognition of expenditures under GAAP in 2003 and will be funded with fiscal year 2004 state allotted appropriations.

The DLNR has three major and several non-major special funds. A fund is categorized as major if the percentages of its assets, liabilities, revenues, or expenditures exceed pre-defined percentages when compared to the corresponding total of all funds in that category. The DLNR's three major special revenue funds are: 1) Federal Grant Fund; 2) Special Land Development Fund; 3) Ocean-Based Recreation Fund.

The Federal Grant Fund accounts for funds received from a variety of federal grantor agencies for specific purposes ranging from restoration, protection and acquisition of natural resources to assistance following a natural disaster. Total federal grant expenditures for the year approximated \$16.1 million from over one hundred individual grants. A Schedule of Expenditures of Federal Awards which lists the various grants can be found in the Supplemental Information section.

The Special Land Development Fund accounts for all the proceeds of the sale or use of public lands as well as monies collected for mineral and water rights, fines and other administrative charges. Funds are used for the planning, development, management and maintenance of public land and land improvements. Revenue collected in fiscal year 2003 was approximately \$6.3 million of which \$4.9 was expended. For fiscal year 2003, the Fund had an \$11.6 million decrease in assets, primarily due to the previously mentioned transfer of cash to the State General Fund. A total of \$13 million was transferred.

The Ocean-Based Recreation Fund accounts for revenues collected to implement the boating and ocean recreation program. Deposits into this fund include a portion of the liquid fuel tax used by recreational boaters. Revenue was approximately \$9.6 million and expenditures approximately \$8.8 million.

The Kaho'olawe Rehabilitation Trust Fund is DLNR's major expendable trust fund. This fund accounts for moneys received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe. An increase of \$4.6 million in net assets and \$5.7 million in fund balance are the result of \$8.3 million received from the Department of Defense and \$1 million in investment income which was off set by \$3.6 million in expenses.

The Capital Projects Fund received approximately \$20.8 million of State allotted appropriations for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities. During the current year, approximately \$19.4 million was expended for capital outlays.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FIDUCIARY NET ASSETS

These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations. There were no significant variances from the prior year.

Summary of Statement of Fiduciary Assets  
(in millions)

	2003	2002	Increase (Decrease)
Cash and short term investments	\$ 3.4	\$ 3.5	\$ (0.1)
Receivables - General leases and licenses	1.2	1.0	0.2
Total assets	<u>4.6</u>	<u>4.5</u>	<u>0.1</u>
Due to State Treasury	1.2	0.8	0.4
Due to other State agencies	0.6	1.2	(0.6)
Total liabilities	<u>1.8</u>	<u>2.0</u>	<u>(0.2)</u>
Held in trust for Individuals and organizations	2.8	2.5	0.3
Total net assets	<u>\$ 2.8</u>	<u>\$ 2.5</u>	<u>\$ 0.3</u>

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for the general funded programs were \$2.3 million less than the budgeted expenditures. This was due primarily to savings from vacant positions.

Federal Funds - In anticipation of additional federal grant funds in fiscal year 2003, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately \$7 million. However, planned projects, repairs and maintenance, resource protection and development were delayed due to expenditure control measures and project reprioritization and consolidation resulting in lower actual expenditures than were budgeted.

Special Land Development Fund - In fiscal year 2003, actual revenue exceeded budgeted revenue by \$434,408. This increase can be explained, in part to a single business account where the annual rent was increased by \$383,460.

Actual expenditures were \$1,108,914 less than budgeted due to payroll vacancy savings and also expenditure control measures.

Ocean Based Recreation Fund - As reported earlier, this special fund is the primary operating fund for the Division of Boating and Ocean Recreation. Actual revenue collected was \$5.9

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

million less than budgeted and expenditures were \$6.7 million less than budgeted because the division's operating budget had been approved by the Legislature based on an anticipated revised fee structure that was not implemented.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At the end of fiscal year 2003, the DLNR had invested approximately \$200 million (net of accumulated depreciation) in a broad range of capital assets. Net capital assets decreased by \$20.3 million. Of that amount approximately \$21.1 million was construction-in-progress completed and transferred out to non-DLNR agencies. Approximately \$5.2 million of new capital assets were acquired in FY 2003 with the single biggest item being \$1.2 million for floating docks at the Ala Wai Small Boat Harbor.

See Note E to the financial statements for a description of capital assets activities for the Fiscal Year Ended June 30, 2003.

Capital Assets (in millions)			
	2003	2002 (restated)	Increase (Decrease)
Capital assets not being depreciated			
Land	\$ 138.7	\$ 141.5	\$ (2.8)
Land improvements	0.7	0.7	-
Construction in progress	11.0	38.3	(27.3)
Total capital assets not being depreciated	150.4	180.5	(30.1)
Capital assets being depreciated			
Buildings	30.6	29.3	1.3
Land and improvements	77.9	65.0	12.9
Furniture and equipment	5.6	5.6	-
Vehicles	11.2	11.0	0.2
Total capital assets being depreciated	125.3	110.9	14.4
Less total accumulated depreciation	(74.9)	(70.2)	(4.7)
Total capital assets being depreciated, net	50.4	40.7	9.7
Total capital assets, net	<u>\$ 200.8</u>	<u>\$ 221.2</u>	<u>\$ (20.4)</u>

Long-term obligations consist of accrued vacation and State of Hawaii reimbursable general obligation bonds.

The accrued vacation balance as of June 30, 2003 was \$5,759,834, an increase of \$16,000 from fiscal year 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$9.1 million as of June 30, 2003, a decrease of \$936,459 from the amount outstanding as of June 30, 2002. In addition to the payments for bond principal, interest approximating \$475,000 was paid by during the fiscal year ended June 30, 2003. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts is made to the state general fund.

See Note F to the financial statements for details of the general obligations bonds outstanding as of June 30, 2003.

	Long Term Obligations (in millions)		
	2003	2002	Increase (Decrease)
Accrued vacation	\$ 5.8	\$ 5.7	\$ 0.1
General obligation bonds	9.1	10.0	(0.9)
Total long term debt	<u>\$ 14.9</u>	<u>\$ 15.7</u>	<u>\$ (0.8)</u>

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

In October 2003, the DLNR received a \$5 million grant titled Fisheries Disaster Relief Program, from the Department of Commerce, National Oceanic and Atmospheric Administration. The funds will be used to provide assistance to Hawaii Fisheries by establishing a program that will a) provide limited direct assistance to Hawaii fisheries, b) solicit proposals and fund projects for cooperative research that would involve and benefit the affected fisheries, and c) fund applied research and development proposals from the fishing industry.

On April 9, 2004, the Kaho'olawe Island Reserve Commission assumed full managerial control of the Reserve from the U.S. Navy. During the 10-year work period authorized for the clean up, the Navy cleared 22,114 acres or 77% of the island of surface ordnance. Although it has departed from the island, the Navy has agreed to respond to and to fund disposal efforts for newly discovered ordnance. The effort of the KIRC will now focus on the restoration of the Reserve's culture and environment.

In 2003, the State Legislature authorized the creation of the Hawaii Invasive Species Council to provide a framework for cabinet level leadership and coordination for a statewide invasive species prevention and control program. The 2004 Legislature has approved total funding of \$4 million, \$2 million from general funds and \$2 million from the Natural Area Reserves Special Fund to control invasive species on the ground as well as regulate or promote the pathways in which invasive species can gain access into the state.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

Act 52, SLH 2004 provides for the transfer of \$1.5 million from the Special Land Development Fund to the State General Fund on July 1, 2004 and an equal amount on January 1, 2005.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the DLNR's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Land and Natural Resources, Administrative Services Office, P. O. Box 621, Honolulu, Hawaii 96809.

**Department of Land and Natural Resources**

**State of Hawaii**

**Statement of Net Assets**

June 30, 2003

**ASSETS**

Cash and short-term cash investments held in State Treasury (Note C)	\$	119,499,319
Receivables:		
Federal grants		2,380,371
General leases and licenses, net of allowance for losses of \$830,000 (Note D)		444,715
Capital assets:		
Land, improvements, construction-in-progress and other capital assets, net of depreciation (Note E)		200,761,547
Total assets	\$	<u>323,085,952</u>

**LIABILITIES**

Vouchers and contracts payable (Note B)	\$	6,033,567
Accrued wages and employee benefits payable (Note B)		1,668,389
Due to State Treasury (Note H)		8,835,332
Due to other State agencies (Notes I and J)		2,964,656
Deferred revenue		1,461,254
General obligation bonds (Note F):		
Due within one year		751,000
Due in more than one year		8,299,060
Accrued vacation (Note F):		
Due within one year		1,800,000
Due in more than one year		3,959,834
Total liabilities		<u>35,773,092</u>

Commitments and contingencies (Notes G and H)

**NET ASSETS**

Invested in capital assets, net of related debt		191,711,487
Unrestricted		<u>95,601,373</u>
Total net assets		<u>287,312,860</u>
Total liabilities and net assets	\$	<u>323,085,952</u>

The accompanying notes are an integral part of the financial statements.



# Department of Land and Natural Resources

## State of Hawaii

### Statement of Activities

for the year ended June 30, 2003

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Interest, Rents and Fees	Operating Grants and Contributions	
Departmental activities:				
Economic development	\$ 3,588,265	\$ 646,260	\$ 640,538	\$ (2,301,467)
Environmental protection	29,044,305	3,916,416	14,939,627	(10,188,262)
Culture and recreation	23,708,347	12,229,212	5,462,838	(6,016,297)
Public safety	457,226	-	92,602	(364,624)
Individual rights	2,861,524	4,255,668	-	1,394,144
Government-wide support	5,000,012	6,224,725	98,229	1,322,942
Capital outlays (Note E)	15,488,229	-	-	(15,488,229)
Total departmental activities	<u>\$ 80,147,908</u>	<u>\$ 27,272,281</u>	<u>\$ 21,233,834</u>	<u>(31,641,793)</u>
General revenues:				
Appropriations, net of lapsed appropriations of \$8,549,604				<u>39,036,724</u>
Total general revenues before transfers				<u>39,036,724</u>
Transfers, net (including \$21,153,302 of capital assets transferred out)				<u>(41,355,541)</u>
Total general revenues and transfers				<u>(2,318,817)</u>
Change in net assets				<u>(33,960,610)</u>
Net assets at July 1, 2002, as previously reported				<u>291,862,054</u>
Restatement for construction-in-progress (Note E)				<u>29,411,416</u>
Net assets at July 1, 2002, as restated				<u>321,273,470</u>
Net assets at June 30, 2003				<u>\$ 287,312,860</u>

**Department of Land and Natural Resources**

**State of Hawaii**  
Balance Sheet  
Governmental Funds  
June 30, 2003

	General Fund	Federal Grant Fund	Special Land Development Fund	Ocean-Based Recreation Fund	Kahoʻolawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
<b>ASSETS</b>								
Cash and short-term cash investments held in State Treasury (Note C)	\$ 2,059,443	\$ 5,658,442	\$ 9,952,765	\$ 1,724,363	\$ 33,652,880	\$ 49,908,976	\$ 16,542,450	\$ 119,499,319
Receivables:								
Federal grants	-	2,380,371	-	-	-	-	-	2,380,371
General leases and licenses, net of allowance for losses of \$830,000 (Note D)	-	-	52,432	388,201	-	-	4,082	444,715
<b>Total assets</b>	<b>\$ 2,059,443</b>	<b>\$ 8,038,813</b>	<b>\$ 10,005,197</b>	<b>\$ 2,112,564</b>	<b>\$ 33,652,880</b>	<b>\$ 49,908,976</b>	<b>\$ 16,546,532</b>	<b>\$ 122,324,405</b>
<b>LIABILITIES</b>								
Vouchers and contracts payable (Note B)	\$ 975,733	\$ 1,508,898	\$ 275,649	\$ 214,604	\$ 198,956	\$ 1,810,106	\$ 1,049,621	\$ 6,033,567
Accrued wages and employee benefits payable (Note B)	992,613	40,272	122,112	201,181	67,684	79,857	164,670	1,668,389
Due to State Treasury (Note H)	-	8,835,332	-	-	-	-	-	8,835,332
Due to other State agencies (Notes I and J)	-	-	32,258	2,642,888	-	-	289,510	2,964,656
Deferred revenue	-	476,183	274,728	575,212	-	-	135,131	1,461,254
<b>Total liabilities</b>	<b>1,968,346</b>	<b>10,860,685</b>	<b>704,747</b>	<b>3,633,885</b>	<b>266,640</b>	<b>1,889,963</b>	<b>1,638,932</b>	<b>20,963,198</b>
Commitments and contingencies (Notes G and H)								
<b>FUND BALANCES</b>								
Reserved for:								
Encumbrances	1,129,223	4,184,240	1,106,096	674,825	1,466,945	27,896,665	3,696,314	40,154,308
Receivables (Note D)	-	2,380,371	52,432	388,201	-	-	4,082	2,825,086
Continuing appropriations	-	-	-	-	-	20,122,348	-	20,122,348
Unexpended Federal awards	-	-	-	-	31,919,295	-	-	31,919,295
<b>Total reserved fund balances</b>	<b>1,129,223</b>	<b>6,564,611</b>	<b>1,158,528</b>	<b>1,063,026</b>	<b>33,386,240</b>	<b>48,019,013</b>	<b>3,700,396</b>	<b>95,021,037</b>
Unreserved:								
Unreserved reported in major funds	(1,038,126)	(9,386,483)	8,141,922	(2,584,347)	-	-	-	(4,867,034)
Unreserved reported in nonmajor - Special revenue funds	-	-	-	-	-	-	11,207,204	11,207,204
<b>Total unreserved fund balances</b>	<b>(1,038,126)</b>	<b>(9,386,483)</b>	<b>8,141,922</b>	<b>(2,584,347)</b>	<b>-</b>	<b>-</b>	<b>11,207,204</b>	<b>6,340,170</b>
<b>Total fund balances</b>	<b>91,097</b>	<b>(2,821,872)</b>	<b>9,300,450</b>	<b>(1,521,321)</b>	<b>33,386,240</b>	<b>48,019,013</b>	<b>14,907,600</b>	<b>101,361,207</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,059,443</b>	<b>\$ 8,038,813</b>	<b>\$ 10,005,197</b>	<b>\$ 2,112,564</b>	<b>\$ 33,652,880</b>	<b>\$ 49,908,976</b>	<b>\$ 16,546,532</b>	<b>\$ 122,324,405</b>

The accompanying notes are an integral part of the financial statements.



**Department of Land and Natural Resources**  
**State of Hawaii**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**for the year ended June 30, 2003**

	General Fund	Federal Grant Fund	Special Land Development Fund	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
<b>Revenues</b>								
Appropriations	\$ 27,234,776	\$ -	\$ -	\$ -	\$ -	\$ 20,351,552	\$ -	\$ 47,586,328
Intergovernmental revenues	-	11,063,874	-	-	8,250,000	457,110	-	19,770,984
General leases, licenses and permits	-	-	5,499,793	8,122,540	-	-	9,445,520	23,067,853
Fuel taxes	-	-	-	1,441,448	-	-	227,200	1,668,648
Interest	-	83,827	724,932	49,806	1,012,496	-	664,719	2,535,780
Other	-	228,101	98,229	12,211	-	10,328	1,113,981	1,462,850
Total revenues	27,234,776	11,375,802	6,322,954	9,626,005	9,262,496	20,818,990	11,451,420	96,092,443
<b>Expenditures</b>								
Current:								
Economic development	1,705,772	1,155,604	-	-	-	-	555,520	3,416,896
Environmental protection	13,959,107	6,205,052	-	-	3,556,170	-	4,286,713	28,007,042
Culture and recreation	7,226,823	4,133,272	-	7,265,138	-	-	2,840,014	21,465,247
Public safety	78,372	175,670	-	-	-	-	-	254,042
Individual rights	1,749,368	-	-	-	-	-	1,113,071	2,862,439
Government-wide support	-	-	4,962,553	-	-	-	-	4,962,553
Capital improvement projects	-	-	-	-	-	19,408,645	-	19,408,645
Debt service:								
Principal on long-term debt	-	-	-	936,459	-	-	-	936,459
Interest on long-term debt	-	-	-	475,139	-	-	-	475,139
Total expenditures	24,719,442	11,669,598	4,962,553	8,676,736	3,556,170	19,408,645	8,795,318	81,788,462
Excess (deficiency) of revenues over (under) expenditures	2,515,334	(293,796)	1,360,401	949,269	5,706,326	1,410,345	2,656,102	14,303,981
<b>Other financing sources (uses)</b>								
Operating transfers in	-	635,206	5,190,556	9,490,551	-	-	13,571,155	28,887,468
Operating transfers out	(807,758)	(687,258)	(18,188,642)	(10,382,144)	-	(1,524,846)	(17,499,059)	(49,089,707)
Total other financing sources (uses)	(807,758)	(52,052)	(12,998,086)	(891,593)	-	(1,524,846)	(3,927,904)	(20,202,239)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,707,576	(345,848)	(11,637,685)	57,676	5,706,326	(114,501)	(1,271,802)	(5,898,258)
Lapsed appropriations	(1,750,885)	-	-	-	-	(6,798,719)	-	(8,549,604)
Net change in fund balances	(43,309)	(345,848)	(11,637,685)	57,676	5,706,326	(6,913,220)	(1,271,802)	(14,447,862)
Fund balances at July 1, 2002	134,406	(2,476,024)	20,938,135	(1,578,997)	27,679,914	54,932,233	16,179,402	115,809,069
Fund balances at June 30, 2003	\$ 91,097	\$ (2,821,872)	\$ 9,300,450	\$ (1,521,321)	\$ 33,386,240	\$ 48,019,013	\$ 14,907,600	\$ 101,361,207

The accompanying notes are an integral part of the financial statements.

**Department of Land and Natural Resources**  
**State of Hawaii**

Statement of Fiduciary Net Assets  
June 30, 2003

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and short-term cash investments held in State Treasury (Note C)	\$ 3,399,508
Receivables (Note D):	
General leases and licenses, net of allowance for losses of \$335,000	<u>1,250,654</u>
Total assets	<u>4,650,162</u>
<b>LIABILITIES</b>	
Due to State Treasury	1,188,472
Due to other State agencies	<u>629,487</u>
Total liabilities	<u>1,817,959</u>
<b>NET ASSETS</b>	
Held in trust for:	
Individuals and organizations	<u>2,832,203</u>
Total net assets	<u><u>\$ 2,832,203</u></u>

The accompanying notes are an integral part of the financial statements.

**Department of Land and Natural Resources**  
**State of Hawaii**  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2003

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
<b>ASSETS</b>				
Cash and short-term cash investments held in State Treasury	\$ 119,499,319	\$ -	\$ -	\$ 119,499,319
Receivables:				
Federal grants	2,380,371	-	-	2,380,371
General leases and licenses, net of allowance for losses	444,715	-	-	444,715
Capital assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	-	200,761,547 (1)	-	200,761,547
Total assets	<u>\$ 122,324,405</u>	<u>\$ 200,761,547</u>	<u>\$ -</u>	<u>\$ 323,085,952</u>
<b>LIABILITIES</b>				
Vouchers and contracts payable	\$ 6,033,567	\$ -	\$ -	\$ 6,033,567
Accrued wages and employee benefits payable	1,668,389	-	-	1,668,389
Due to State Treasury	8,835,332	-	-	8,835,332
Due to other State agencies	2,964,656	-	-	2,964,656
Deferred revenue	1,461,254	-	-	1,461,254
Bonds payable:				
Due within one year	-	751,000 (2)	-	751,000
Due in more than one year	-	8,299,060 (2)	-	8,299,060
Accrued vacation:				
Due within one year	-	1,800,000 (3)	-	1,800,000
Due in more than one year	-	3,959,834 (3)	-	3,959,834
Total liabilities	<u>20,963,198</u>	<u>14,809,894</u>	<u>-</u>	<u>35,773,092</u>
<b>FUND BALANCES/NET ASSETS</b>				
Invested in capital assets, net of related debt	-	221,194,158 (1)	-	191,711,487
		9,750,382 (1)	-	
		(77,118) (1)	-	
		(5,855,181) (1)	-	
		(2,780,385) (1)	-	
		(21,153,302) (1)	-	
		(317,007) (1)	-	
		(9,986,519) (2)	-	
		936,459 (2)	-	
Reserved/Restricted for:				
Encumbrances	40,154,308	-	(40,154,308) (4)	-
Receivables	2,825,086	-	(2,825,086) (4)	-
Continuing appropriations	20,122,348	-	(20,122,348) (4)	-
Unexpended federal awards	31,919,295	-	(31,919,295) (4)	-
Unreserved/Unrestricted:	6,340,170	(5,743,238) (3)	95,021,037 (4)	95,601,373
		(16,596) (3)	-	
Total fund balances/net assets	<u>101,361,207</u>	<u>185,951,653</u>	<u>-</u>	<u>287,312,860</u>
Total liabilities and fund balances/net assets	<u>\$ 122,324,405</u>	<u>\$ 200,761,547</u>	<u>\$ -</u>	<u>\$ 323,085,952</u>

The accompanying notes are an integral part of the financial statements.

**The Department of Land and Natural Resources  
State of Hawaii**

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2003 (continued)

Total fund balances - governmental funds	\$ 101,361,207
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Amounts reported for governmental activities in the statement of net assets  
are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:

Land improvements	\$ 78,553,468	
Other capital assets	47,447,571	
Accumulated depreciation	(74,946,942)	
Land	138,688,453	
Other capital assets, not depreciated	31,590	
Construction in progress	10,987,407	
Total capital assets	200,761,547	200,761,547

(2) Bonds payable are not reported in the governmental funds.	(9,050,060)
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(3) Accrued vacation is not reported in the governmental funds.	(5,759,834)
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(4) Reclassify reserved fund balance/net assets to unrestricted fund balance/net assets.	-
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Total net assets	\$ 287,312,860
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The accompanying notes are an integral part of the financial statements.

**The Department of Land and Natural Resources  
State of Hawaii**

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances  
to the Statement of Activities  
for the year ended June 30, 2003

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
<b>Revenues</b>				
Appropriations	\$ 47,586,328	\$ -	\$ (8,549,604) (4)	\$ 39,036,724
Intergovernmental revenues	19,770,984	-	-	19,770,984
General leases, licenses and permits	23,067,853	-	-	23,067,853
Fuel taxes	1,668,648	-	-	1,668,648
Interest	2,535,780	-	-	2,535,780
Other	1,462,850	-	-	1,462,850
<b>Total revenues</b>	<b>96,092,443</b>	<b>-</b>	<b>(8,549,604)</b>	<b>87,542,839</b>
<b>Expenditures</b>				
Economic development	3,416,896	(116,677) (1)	-	3,588,265
		4,564 (1)	-	
		266,023 (1)	-	
		17,459 (3)	-	
Environmental protection	28,007,042	(1,351,783) (1)	-	29,044,305
		50,237 (1)	-	
		2,303,332 (1)	-	
		35,477 (3)	-	
Culture and recreation	21,465,247	(1,063,302) (1)	475,139 (5)	23,708,347
		21,619 (1)	-	
		2,901,609 (1)	-	
		(91,965) (3)	-	
Public safety	254,042	(1,845) (1)	-	457,226
		698 (1)	-	
		197,526 (1)	-	
		6,805 (3)	-	
Individual rights	2,862,439	(74,543) (1)	-	2,861,524
		59,358 (1)	-	
		14,270 (3)	-	
Government-wide support	4,962,553	(124,424) (1)	-	5,000,012
		127,333 (1)	-	
		34,550 (3)	-	
Capital outlays	19,408,645	(7,017,808) (1)	-	15,488,229
		317,007 (1)	-	
		2,780,385 (1)	-	
Principal on long-term debt	936,459	(936,459) (2)	-	-
Interest on long-term debt	475,139	-	(475,139) (5)	-
<b>Total expenditures</b>	<b>81,788,462</b>	<b>(1,640,554)</b>	<b>-</b>	<b>80,147,908</b>
	14,303,981	1,640,554	(8,549,604)	7,394,931
<b>Other financing sources (uses) and lapsed appropriations:</b>				
Net operating transfers	(20,202,239)	(21,153,302) (1)	-	(41,355,541)
Lapsed appropriations	(8,549,604)	-	8,549,604 (4)	-
<b>Change in fund balances/net assets</b>	<b>\$ (14,447,862)</b>	<b>\$ (19,512,748)</b>	<b>\$ -</b>	<b>\$ (33,960,610)</b>

The accompanying notes are an integral part of the financial statements

**The Department of Land and Natural Resources  
State of Hawaii**

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances  
to the Statement of Activities  
for the year ended June 30, 2003 (continued)

Change in fund balances - governmental funds	\$ (14,447,862)
Amounts reported for governmental activities in the statement of activities are different because:	
(1) Capital outlays are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these outlays are:	
Capital outlays and equipment purchases	\$ 9,750,382
Loss on disposal of equipment	(77,118)
Depreciation expense	(5,855,181)
Adjust costs which should not be capitalized	(2,780,385)
Completed construction projects, constructed for other governmental agencies	(21,153,302)
Completed construction contracts, less than the capitalization threshold	<u>(317,007)</u>
Excess of capital outlays over depreciation expense	(20,432,611)
(2) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets.	936,459
(3) The increase in accrued vacation is not reported in governmental funds.	(16,596)
(4) Lapsed appropriations are net against appropriations in the statement of activities.	-
(5) Reclassify interest on long-term debt to function.	<u>-</u>
Change in net assets	<u><u>\$ (33,960,610)</u></u>

The accompanying notes are an integral part of the financial statements.

**The Department of Land and Natural Resources  
State of Hawaii**

Statement of Revenues and Expenditures - Budget and Actual -  
General Fund  
for the year ended June 30, 2003

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Appropriations	\$ 27,234,776	\$ 27,234,776	\$ 27,234,776	\$ -
Expenditures:				
Economic development	1,807,155	1,807,155	1,715,030	92,125
Environmental protection	15,522,768	15,522,768	14,026,939	1,495,829
Culture and recreation	7,973,595	7,973,595	7,292,102	681,493
Public safety	128,960	128,960	73,416	55,544
Individual rights	1,802,298	1,802,298	1,744,470	57,828
Total expenditures	27,234,776	27,234,776	24,851,957	2,382,819
Excess of revenues over expenditures	\$ -	\$ -	\$ 2,382,819	\$ 2,382,819

The accompanying notes are an integral part of the financial statements.

**The Department of Land and Natural Resources  
State of Hawaii**

Statement of Revenues and Expenditures - Budget and Actual -  
Other Major Funds  
for the year ended June 30, 2003

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>Federal Grant Fund</u>				
Revenues	\$ 10,192,062	\$ 17,421,834	\$ 11,375,802	\$ (6,046,032)
Expenditures:				
Economic Development	721,827	1,460,960	887,374	573,586
Environmental Protection	6,885,482	9,753,864	5,004,602	4,749,262
Culture and Recreation	2,352,768	5,975,025	4,011,397	1,963,628
Public Safety	159,351	159,351	176,064	(16,713)
Government-wide Support	72,634	72,634	-	72,634
Total expenditures	10,192,062	17,421,834	10,079,437	7,342,397
Excess of revenues over expenditures	\$ -	\$ -	\$ 1,296,365	\$ 1,296,365

The accompanying notes are an integral part of the financial statements.



**The Department of Land and Natural Resources  
State of Hawaii**

**Statement of Revenues and Expenditures - Budget and Actual -  
Other Major Funds  
for the year ended June 30, 2003 (continued)**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
<u>Special Land Development Fund</u>				
Revenues	\$ 5,888,546	\$ 5,888,546	\$ 6,322,954	\$ 434,408
Expenditures:				
Government-wide support	5,888,546	5,888,546	4,779,632	1,108,914
Excess of revenues over expenditures	\$ -	\$ -	\$ 1,543,322	\$ 1,543,322
<u>Ocean-Based Recreation Fund</u>				
Revenues	\$ 15,499,230	\$ 15,499,230	\$ 9,626,005	\$ (5,873,225)
Expenditures:				
Culture and recreation	15,499,230	15,499,230	8,781,468	6,717,762
Excess of revenues over expenditures	\$ -	\$ -	\$ 844,537	\$ 844,537

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The Department of Land and Natural Resources (DLNR), State of Hawaii (the State), is headed by the Board of Land and Natural Resources. The DLNR manages, administers, and exercises control over public lands, water resources, minerals and all other interests therein and exercises such powers of disposition thereof as authorized by law. The DLNR also manages and administers the State's parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, natural area reserves, and other functions assigned to it by law. In connection with the above, the DLNR leases certain lands and facilities under its jurisdiction to individuals and organizations under long-term and short-term agreements.

The accompanying financial statements of the DLNR have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This Statement establishes new financial reporting requirements for state and local governments throughout the United States of America. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the DLNR has implemented, if applicable, the following GASB Statements in the current year: Statement 33 – Accounting and Financial Reporting for Nonexchange Transactions, Statement 36 – Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38 – Certain Financial Statement Note Disclosures.

The accompanying financial statements present the financial position of the DLNR and the various funds and fund types and the changes in financial position of the DLNR and the various funds and fund types. The financial statements are presented as of June 30, 2003, and for the year then ended.

The following is a summary of significant accounting policies.

1. Reporting Entity - The DLNR is part of the executive branch of the State. The DLNR's financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DLNR. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DLNR's assets, liabilities, net assets and financial activities.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)**

2. Departmental and Governmental Fund Financial Statements – The departmental financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the DLNR. The effect of interfund activity has been removed from these departmental financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are presented as reserves of fund balances.

Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.
- Receivables are amounts owed to DLNR at year end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.
- Continuing appropriations, which include specific legislative appropriations which do not lapse at the end of the year.
- Unexpended federal awards received for the restoration of the Island of Kaho'olawe as outlined in Title X of the Fiscal Year 1994 Department of Defense Appropriations Act, Public Law 103-139, 107 Stat. 1418.

Unreserved fund balances represents resources that have not been internally designated.

Financial statements are provided for DLNR's governmental and fiduciary funds. The DLNR has no proprietary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

Departmental Financial Statements – The departmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DLNR considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The DLNR has no principal revenue sources which are considered susceptible to accrual.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2003, has been reported only in the departmental financial statements.

**4. Fund Accounting –** The accounts of the DLNR are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of the DLNR that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund – The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4. Fund Accounting (continued) –**

**Special Revenue Funds** – Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from assessments and fees. DLNR's major special revenue funds are as follows:

**Federal Grant Fund** – This fund was established by DLNR to account for its federal grant expenditures and related federal grant reimbursements. It does not account for monies received from the federal government for the rehabilitation of the island of Kaho'olawe.

**Special Land Development Fund** – This fund was authorized under HRS §171-19. The primary sources of revenues to this fund are proceeds from the sales of public lands, all rents from leases, licenses, and permits derived from public lands; and all moneys collected from lessees of public lands within industrial parks. These revenues are principally used for the planning, development, management, operations or maintenance of all lands and improvements under the control and management of the Board of Land and Natural Resources.

**Ocean-Based Recreation Fund** – This fund was established under HRS §248-8. The fund receives its revenues from fuel taxes and rents from mooring permits at the State's small boat harbors. These revenues are used for the planning, development, management, operations or maintenance of the small boat harbors.

**Expendable Trust Funds** - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes. DLNR's major expendable trust fund is described as follows:

**Kaho'olawe Rehabilitation Trust Fund** – This fund was established under HRS Title I, Chapter 6K. The primary source of revenues to this fund are moneys received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe.

**Capital Projects Fund** – The capital projects fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities. These resources are derived from State appropriations.

**5. Fiduciary Fund** - The DLNR presents as a fiduciary fund, assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

**The Department of Land and Natural Resources**  
**State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)**

6. Appropriations - An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.
7. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.
8. Cash and Short-term Cash Investments - Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consist of cash and short-term cash investments held in the State Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental fund balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.



**The Department of Land and Natural Resources**  
**State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)**

9. Accumulated Vacation and Sick Leave - Eligible employees who are employed on or before July 1, 2001 are credited with vacation at a rate of 168 hours per calendar year. Eligible employees who are employed after July 1, 2001 are credited with vacation at a rate of 96 hours per calendar year during the first five years of service, 144 hours per calendar year during the next five years of service, 168 hours per calendar year during the next ten years of service and 192 hours per calendar year thereafter. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Eligible employees employed on or before July 1, 2001 are credited with sick leave at a rate of one and three-quarter days per month. Eligible employees employed after July 1, 2001 are credited with sick leave at a rate of one and one-quarter days per month through the first ten years of service and at a rate of one and three-quarter days per month thereafter. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DLNR's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2003 was \$18,668,702.

10. Intrafund and Interfund Transactions - Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)**

11. Inventory - Inventory of materials and supplies is recorded as expenditures when purchased.
12. Capital Assets - Capital assets, which include, land, buildings, improvements, equipment and vehicles are reported in the departmental financial statements. Capital assets are assets which have a cost of \$5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the departmental financial statements.

Capital assets are depreciated in the Departmental financial statements on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land, certain land improvements and construction-in-progress. Generally, estimated useful lives are as follows:

Furniture and equipment	5 - 7 years
Vehicles	5 years
Buildings and land improvements	15 - 40 years

13. Grants - Federal awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement type awards are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.
14. Use of Estimates - In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Combined Financial Statements  
June 30, 2003

**NOTE B - BUDGETING AND BUDGETARY CONTROL**

The DLNR's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DLNR as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the DLNR's general fund are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, the DLNR's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statements of revenues and expenditures -- budget and actual, are presented on the budgetary basis. A reconciliation of the general and major special revenue funds' revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2003, to the general and major special revenue funds' revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$926,331 and \$347,057 in the general and major special revenue funds, respectively, for the period from June 16, 2003 through June 30, 2003, are to be funded with monies budgeted for fiscal 2004. In addition, at June 30, 2003, the DLNR accrued expenditures of \$111,795 and \$347,095 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2003, which the DLNR will fund with monies budgeted for fiscal 2004. Accordingly, these amounts are excluded from the statements of revenues and expenditures -- budget and actual. For accounting purposes these amounts are reflected in the departmental and governmental fund financial statements at June 30, 2003, in accordance with accounting principles generally accepted in the United States of America.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)**

In fiscal 2002, under section 78-13 HRS salaries and wages for the period from June 16, 2002 to June 30, 2002, were funded with monies budgeted for fiscal 2003. In addition, at June 30, 2002, the DLNR accrued certain salaries and wages for the period prior to June 16, 2002 and certain goods and services received through June 30, 2002, which the DLNR funded with monies budgeted for fiscal 2003. Accordingly, these amounts are included in the statements of revenues and expenditures – budget and actual, for the year ended June 30, 2003. These salaries, wages, goods and services aggregated \$1,104,455 and \$546,115 in the general and major special revenue funds, respectively.

The following schedule reconciles the general and major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis) for the fiscal year ended June 30, 2003.

	General Fund	Major Special Revenue Funds		
		Federal Grant Funds	Special Land Development Fund	Ocean-based Recreation Fund
Excess of revenues over (under) expenditures - actual on budgetary basis	\$ 2,359,147	\$ 1,296,365	\$ 1,543,322	\$ 844,537
Current year's appropriations included in reserved for encumbrances at June 30, 2003	949,759	48,778	296,291	600,543
Expenditures for liquidation of prior years' encumbrances	(859,901)	(1,549,826)	(432,665)	(483,434)
Fiscal 2002 salaries and wages and other expenditures funded by fiscal 2003 budget	1,104,455	230,583	95,743	219,789
Fiscal 2003 salaries and wages funded by fiscal 2004 budget under Section 78-13 HRS	(926,331)	(38,788)	(119,014)	(189,255)
Fiscal 2003 expenditures funded by fiscal 2004 budget	(111,795)	(280,908)	(23,276)	(42,911)
Excess of revenues over expenditures - GAAP basis	<u>\$ 2,515,334</u>	<u>\$ (293,796)</u>	<u>\$ 1,360,401</u>	<u>\$ 949,269</u>

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE C – CASH AND SHORT-TERM CASH INVESTMENTS HELD IN STATE TREASURY**

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorize the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2003, the carrying amount, which approximates the bank balance of the DNLR's cash and short-term cash investments, was \$119,499,319 for its governmental funds and \$3,399,508 for its fiduciary funds..

**NOTE D - RECEIVABLES**

At June 30, 2003, receivables for general leases and licenses for governmental funds consisted of the following:

	Special Land Development Fund	Ocean-based Recreation Fund	Other Funds	Total
Rents, fees and licenses	\$ 99,227	\$ 1,123,280	\$ 51,955	\$ 1,274,462
Less allowance for doubtful accounts	(46,795)	(735,079)	(47,873)	(829,747)
	<u>\$ 52,432</u>	<u>\$ 388,201</u>	<u>\$ 4,082</u>	<u>\$ 444,715</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$824,305 at June 30, 2003. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

At June 30, 2003, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$ 1,585,654
Less allowance for doubtful accounts	(335,000)
	<u>\$ 1,250,654</u>

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE E - CAPITAL ASSETS**

The changes in capital assets were as follows:

	Beginning Balance July 1, 2002 (previously reported)	Adjustments	Beginning Balance July 1, 2002 (restated)	Additions, Disposals Adjustments, and Transfers	Ending Balance June 30, 2003
Capital assets not being depreciated					
Land	\$ 141,468,838	\$ -	\$ 141,468,838	\$ (2,780,385)	\$ 138,688,453
Land improvements	688,400	-	688,400	-	688,400
Construction-in-progress	8,955,072	29,411,415	38,366,487	7,017,808 (12,926,579) (21,153,302) (317,007)	10,987,407
Other assets	31,590	-	31,590	-	31,590
<b>Total capital assets, not being depreciated</b>	<b>151,143,900</b>	<b>29,411,415</b>	<b>180,555,315</b>	<b>(30,159,465)</b>	<b>150,395,850</b>
Capital assets being depreciated -					
Buildings	29,335,873	-	29,335,873	1,221,263	30,557,136
Land improvements	64,963,202	-	64,963,202	12,901,866	77,865,068
Furniture and equipment	5,576,020	-	5,576,020	582,993 (503,135)	5,655,878
Motor vehicles	10,984,740	-	10,984,740	953,031 (703,214)	11,234,557
<b>Total capital assets, being depreciated</b>	<b>110,859,835</b>	<b>-</b>	<b>110,859,835</b>	<b>14,452,804</b>	<b>125,312,639</b>
Less: accumulated depreciation for -					
Buildings	(16,636,963)	-	(16,636,963)	(877,179)	(17,514,142)
Land improvements	(39,756,802)	-	(39,756,802)	(3,724,898)	(43,481,700)
Furniture and equipment	(4,516,028)	-	(4,516,028)	(304,975) 450,007	(4,370,996)
Motor vehicles	(9,311,199)	-	(9,311,199)	(948,129) 679,224	(9,580,104)
<b>Total accumulated depreciation</b>	<b>(70,220,992)</b>	<b>-</b>	<b>(70,220,992)</b>	<b>(4,725,950)</b>	<b>(74,946,942)</b>
<b>Total capital assets, being depreciated, net</b>	<b>40,638,843</b>	<b>-</b>	<b>40,638,843</b>	<b>9,726,854</b>	<b>50,365,697</b>
<b>Capital assets, net</b>	<b>\$ 191,782,743</b>	<b>\$ 29,411,415</b>	<b>\$ 221,194,158</b>	<b>\$ (20,432,611)</b>	<b>\$ 200,761,547</b>

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE E - CAPITAL ASSETS (continued)**

In the prior year, DLNR did not capitalize construction projects in progress which were to be transferred to other State Departments and Counties when they are completed. DLNR was subsequently informed by the Department of Accounting and General Services to capitalize these projects while being constructed and transfer the assets out to the respective State Departments and Counties when completed. Accordingly, DLNR increased its July 1, 2002 construction-in-progress balance by \$29,411,415, to record the capital projects to be utilized by others when completed. This resulted in a \$29,411,415 restatement to the July 1, 2002 net assets invested in capital assets.

**Other changes to capital assets consisted of the following:**

**Additions:**

Capital outlays and equipment purchases	\$ 9,750,382
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**Disposals:**

Disposed capital assets, at cost	\$ 1,206,349
Accumulated depreciation of disposed capital assets	1,129,231
Loss on disposal of capital assets	<u>\$ (77,118)</u>

**Adjustments:**

Reduce land for costs which should not have been Capitalized	\$ (2,780,385)
Transfer out completed construction contracts, constructed for other governmental agencies	<u>\$ (21,153,302)</u>
Expense completed construction contracts, less than the capitalization threshold	<u>\$ (317,007)</u>

Depreciation expense for the year ended June 30, 2003, was charged to functions of the DLNR as follows:

Economic development	\$ 266,023
Environmental protection	2,303,332
Culture and recreation	2,901,609
Public safety	197,526
Individual rights	59,358
Government-wide support	127,333
	<u>\$ 5,855,181</u>

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE F - LONG-TERM OBLIGATIONS**

The changes in long-term obligations were as follows:

	Accrued Vacation	General Obligation Bonds
Balance at July 1, 2002	\$ 5,743,238	\$ 9,986,519
Principal payments	-	(936,459)
Net increase in accrued vacation	16,596	-
<b>Balance at June 30, 2003</b>	<b>\$ 5,759,834</b>	<b>\$ 9,050,060</b>

The following are portions of the State of Hawaii general obligation bonds allocated to the DLNR under Acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts are made to the State general fund. The details of these general obligation bonds at June 30, 2003 are as follows:

\$1,867,548 series BW bonds dated March 1, 1992; due in annual installments of \$103,742; final payment on March 1, 2012; interest at 5.15% to 6.4% payable semi-annually	\$ 726,195
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\$1,648,311 series BZ bonds dated October 1, 1992; due in annual installments of \$103,019 commencing October 1, 2000; final payment on October 1, 2012; interest at 5% to 6% payable semi-annually	824,156
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\$987,378 series CB refunding bonds dated January 1, 1993; due in annual installments of \$75,945; final payment on January 1, 2008; interest at 4.3% to 5.75% payable semi-annually	379,726
Subtotal carried forward	1,930,077



**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE F –LONG-TERM OBLIGATIONS (continued)**

Subtotal brought forward	\$ 1,930,077
\$1,852,409 series CC refunding bonds dated February 1, 1993; due in annual installments of \$132,323 through February 1, 2005 and \$132,295 through final payment on February 1, 2009; interest at 3.85% to 7.75% payable semi-annually	793,826
<b>\$1,218,020</b> series CH bonds dated November 1, 1993; due in annual installments of \$67,673 through November 1, 2010 and \$67,649 through final payment on November 1, 2013; interest at 4.1% to 6% payable semi-annually	744.308
\$2,540,742 series CI refunding bonds dated November 1, 1993; due in annual installments of \$158,674; final payment on November 1, 2010; interest at 4% to 5% payable semi-annually	1,269.126
\$756,420 series CK bonds dated September 1, 1995; due in annual installments of \$42,019; final payment on September 1, 2006; interest at 5% to 6% payable semi-annually	84,038
\$1,543,701 series CO bonds dated March 1, 1997; due in varying semi-annual installments; final payments on March 1, 2011; interest at 4.5% to 6% payable semi-annually	1,138,917
\$19,478 series CQ bonds dated October 1, 1997; due in varying annual installments; final payment on October 1, 2004; interest at 4% to 5% payable semi-annually	6,258
\$129,212 series CN bonds dated March 1, 1997; due in varying annual installments commencing March 1, 2002 through final payment on March 1, 2017; partially refunded \$11,135 by the issuance of refunding General Obligation Bonds, Series CS, dated April 1, 1998; interest at 5.25% to 6.25% payable semi-annually	107,676
Subtotal carried forward	<u>6,074,226</u>



**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE F – LONG-TERM OBLIGATIONS (continued)**

Subtotal brought forward	\$ 6,074,226
\$214 series CP bonds dated October 1, 1997; due in varying annual installments commencing April 1, 2002 through final payments on April 1, 2021; interest at 5% to 5.5% payable semi-annually	214
<b>\$85,000 series CR bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2006 through final payment on April 1, 2021; interest at 4.75% to 6% payable semi-annually</b>	<b>85,000</b>
\$1,489,544 series CS bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2003 through final payment on April 1, 2009; interest at 5% to 5.25% payable semi-annually	1,317,835
\$576,754 series CT bonds dated September 15, 1999; due in varying annual installments commencing September 1, 2005 through final payment on September 1, 2019; interest at 4.50% to 5.80% payable semi-annually	228,231
\$456,926 series CW bonds dated August 1, 2001; due in varying annual installments commencing August 1, 2005 through final payment on August 1, 2015; interest at 3.4% to 5.5% payable semi-annually	456,926
\$887,628 series CY bonds dated February 2, 2002; due in varying annual installments commencing February 1, 2007 through final payment on February 1, 2015; interest at 3.6% to 5.75% payable semi-annually	<u>887,628</u>
	<u>\$ 9,050,060</u>

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE F – LONG-TERM OBLIGATIONS (continued)**

Interest paid by the DLNR during the fiscal year ended June 30, 2003, approximated \$475,000.

The approximate annual requirements to amortize the general obligation bond's debt and related interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2004	\$ 751,351	\$ 432,936	\$ 1,184,287
2005	768,376	397,637	1,166,013
2006	1,091,683	355,040	1,446,723
2007	1,193,974	298,840	1,492,814
2008	1,178,615	240,865	1,419,480
2009	1,131,432	182,259	1,313,691
2010	769,035	126,792	895,827
2011	788,214	86,391	874,605
2012	466,242	51,806	518,048
2013	373,108	29,158	402,266
2014	245,199	16,650	261,849
2015	187,567	9,476	197,043
2016	59,051	3,615	62,666
2017	17,985	2,321	20,306
2018	6,549	1,392	7,941
2019	6,877	1,065	7,942
2020	7,221	721	7,942
2021	7,581	360	7,941
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL	<u>\$ 9,050,060</u>	<u>\$ 2,237,324</u>	<u>\$ 11,278,384</u>

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE G - RETIREMENT BENEFITS**

Substantially all employees of the DLNR are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost sharing multiple employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the ERS consisted only of a contributory plan. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are excluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Contributions for employees of the DLNR are paid from the State General Fund.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis.

The State's policy is to fund its required contribution annually. The DLNR's general fund share of the retirement system expense for the fiscal year ended June 30, 2003, was included as an item to be expended by the Department of Budget and Finance, State of Hawaii, and is not reflected in the DLNR's financial statements. The DLNR's special revenue funds, expendable trust funds and capital projects fund contributed approximately \$737,000 to the ERS for the fiscal year ended June 30, 2003. The entire ERS' actuarial determination of the employer contribution requirements were met as of June 30, 2003.

The ERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained from the ERS.

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all DLNR employees, their spouses and dependent children under age 19. Employees hired before July 1, 1996, who retire with at least ten years of credited service, qualify for health benefits at no cost. Employees who were hired on or after July 1, 1996, with at least ten years of credited service, qualify for health benefits on a cost-sharing basis. Employees with 25 or more years of credited service qualify for health benefits at no cost.

There are currently approximately 32,400 state retirants receiving such benefits. Employees hired after July 1, 2001 will not receive health benefits for their spouse and dependents when they retire.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE H - COMMITMENTS AND CONTINGENCIES**

**Litigation -**

The DLNR is involved in several lawsuits and complaints which management believes arose in the normal course of operations. Based on discussions with counsel, management has ascertained that lawsuits and complaints against the State of Hawaii are typically paid through an appropriation from the General Fund of the State of Hawaii. Accordingly, management is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of the DLNR.

**Insurance -**

Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. All payments for workers' compensation are reflected in the respective department or agency's financial statements. Workers' compensation payments made by the DLNR for the fiscal year ended June 30, 2003 approximated \$171,000 and are reflected as expenditures of the general fund. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Assets. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DLNR's financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported were reviewed at year end. In the opinion of management, the estimated losses from these claims are not material.

**Deferred Compensation Plan -**

In 1983, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. The Department of Human Resources Development, State of Hawaii, has the fiduciary responsibility of administering the plan. The plan assets are protected from claims of the State's creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

**Due to State Treasury -**

Included in the special revenue funds are approximately \$6,802,000 of federal fund reimbursements received or receivable by the DLNR for program expenditures that were paid with previous year's general operating funds and \$2,033,000 of federal fund reimbursements received by the DLNR for the acquisition or construction of major capital facilities that were paid with the proceeds of general obligation bonds. Under Act 328 of the 1997 Regular Session, such monies are owed to the State Treasury.

**The Department of Land and Natural Resources  
State of Hawaii**

Notes to the Financial Statements  
June 30, 2003

**NOTE H - COMMITMENTS AND CONTINGENCIES (continued)**

Other -

At June 30, 2003, substantially all of the reserve for encumbrances in the capital projects fund relates to construction contracts.

**NOTE I - SMALL BOAT HARBORS AND BOAT RAMPS PROGRAM**

During the year ended June 30, 2003, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately \$92,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2003, the DLNR owed the Department of Transportation, State of Hawaii, approximately \$325,000 for these services.

**NOTE J - CENTRAL SERVICE AND ADMINISTRATION FEES**

During the fiscal year ended June 30, 2003, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$1,708,000 in Central Service and Administration fees. At June 30, 2003, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$861,000 in unpaid fees.

## SUPPLEMENTAL INFORMATION



## The Department of Land and Natural Resources

## State of Hawaii

Combining Balance Sheet -  
Nonmajor Governmental Funds

June 30, 2003

	Bureau of Conveyances Fund	Accrued Vacation and Sick Leave Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal carried forward
<b>ASSETS</b>											
Cash and short-term cash investments held in State Treasury	\$ 1,960,651	\$ 499,210	\$ 465,802	\$ 425,595	\$ 133,663	\$ 390,330	\$ 758,665	\$ 121,569	\$ 6,087,428	\$ 20,533	\$ 10,863,446
Receivables:											
General taxes and licenses, net of allowance for losses											
Total assets	\$ 1,960,651	\$ 499,210	\$ 465,802	\$ 425,595	\$ 133,663	\$ 390,330	\$ 758,665	\$ 121,569	\$ 6,087,428	\$ 20,533	\$ 10,863,446
<b>LIABILITIES</b>											
Vouchers and contracts payable	\$ 204,872	\$ -	\$ 60,192	\$ 50,600	\$ 20,097	\$ 20,287	\$ 47,713	\$ 39,354	\$ 235,652	\$ -	\$ 678,767
Accrued wages and employee benefits payable	18,479	-	-	-	2,484	4,145	10,632	78,212	-	5,226	119,178
Due to other State agencies	203,187	-	-	-	-	-	-	-	37,554	-	240,741
Deferred revenue	-	-	-	-	-	-	9,880	-	-	-	9,880
Total liabilities	426,538	-	60,192	50,600	22,581	24,432	68,225	117,566	273,206	5,226	1,048,566
<b>FUND BALANCES</b>											
Reserved for:											
Encumbrances	395,286	-	15,797	233,702	42,070	369,258	343,610	139,960	1,723,339	-	3,263,022
Receivables	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	395,286	-	15,797	233,702	42,070	369,258	343,610	139,960	1,723,339	-	3,263,022
(Unreserved:											
Unreserved reported in nonmajor -											
Special revenue funds	1,138,827	499,210	389,813	141,293	69,012	(3,360)	346,830	(135,957)	4,090,883	15,307	6,551,858
Total unreserved fund balances	1,138,827	499,210	389,813	141,293	69,012	(3,360)	346,830	(135,957)	4,090,883	15,307	6,551,858
Total fund balances	1,534,113	499,210	405,610	374,995	111,082	365,898	690,440	4,003	5,814,222	15,307	9,814,880
Total liabilities and fund balances	\$ 1,960,651	\$ 499,210	\$ 465,802	\$ 425,595	\$ 133,663	\$ 390,330	\$ 758,665	\$ 121,569	\$ 6,087,428	\$ 20,533	\$ 10,863,446



## The Department of Land and Natural Resources

## State of Hawaii

Continuing Balance Sheet -

Nonmajor Governmental Funds

June 30, 2003 (continued)

	Subtotal brought forward	No Ala Hele Park Development Fund	Sport-Fish Restoration Fund	Park Development and Operations Fund	State Parks Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Donations, Gifts and Grants Fund	OHA Kikakaleoaka Trust Fund	Total Other Governmental Funds
<b>ASSETS</b>										
Cash and short-term cash investments held in State Treasury	\$ 10,863,446	\$ 604,483	\$ 46,963	\$ 256,457	\$ 3,352,532	\$ 15,569	\$ 3,164	\$ 3,611	\$ 1,396,225	\$ 16,542,450
Receivables:										
General leases and licenses, net of allowance for losses	-	-	-	-	4,082	-	-	-	-	4,082
<b>Total assets</b>	<b>\$ 10,863,446</b>	<b>\$ 604,483</b>	<b>\$ 46,963</b>	<b>\$ 256,457</b>	<b>\$ 3,356,614</b>	<b>\$ 15,569</b>	<b>\$ 3,164</b>	<b>\$ 3,611</b>	<b>\$ 1,396,225</b>	<b>\$ 16,546,532</b>
<b>LIABILITIES</b>										
Vouchers and contracts payable	\$ 678,767	\$ 36,088	\$ 16,662	\$ 240,582	\$ 62,037	\$ 15,485	\$ -	\$ -	\$ -	\$ 1,049,621
Accrued wages and employee benefits payable	119,178	10,908	-	-	34,584	-	-	-	-	164,670
Due to other State agencies	240,741	-	-	-	48,769	-	-	-	-	289,510
Deferred revenue	9,880	-	-	-	125,251	-	-	-	-	135,131
<b>Total liabilities</b>	<b>1,048,566</b>	<b>46,996</b>	<b>16,662</b>	<b>240,582</b>	<b>270,641</b>	<b>15,485</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,638,932</b>
<b>FUND BALANCES</b>										
Reserved for:										
Encumbrances	3,263,022	49,033	2,994	17,933	321,432	-	-	-	41,900	3,696,314
Receivables	-	-	-	-	4,082	-	-	-	-	4,082
<b>Total reserved fund balances</b>	<b>3,263,022</b>	<b>49,033</b>	<b>2,994</b>	<b>17,933</b>	<b>325,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,900</b>	<b>3,700,396</b>
Unreserved:										
Unreserved reported in nonmajor - Special revenue funds	6,551,858	508,454	27,307	(2,058)	2,760,459	84	3,164	3,611	1,354,325	11,207,204
<b>Total unreserved fund balances</b>	<b>6,551,858</b>	<b>508,454</b>	<b>27,307</b>	<b>(2,058)</b>	<b>2,760,459</b>	<b>84</b>	<b>3,164</b>	<b>3,611</b>	<b>1,354,325</b>	<b>11,207,204</b>
<b>Total fund balances</b>	<b>9,814,880</b>	<b>557,487</b>	<b>30,301</b>	<b>15,875</b>	<b>3,085,973</b>	<b>84</b>	<b>3,164</b>	<b>3,611</b>	<b>1,396,225</b>	<b>14,907,600</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,863,446</b>	<b>\$ 604,483</b>	<b>\$ 46,963</b>	<b>\$ 256,457</b>	<b>\$ 3,356,614</b>	<b>\$ 15,569</b>	<b>\$ 3,164</b>	<b>\$ 3,611</b>	<b>\$ 1,396,225</b>	<b>\$ 16,546,532</b>

## Department of Land and Natural Resources

## State of Hawaii

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -  
Nonmajor Governmental Funds  
for the year ended June 30, 2003

	Bureau of Conveyances Fund	Accrued Vacation and Sick Leave Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal carried forward
<b>Revenues</b>											
General leases, licenses and permits	\$ 4,103,065	\$ -	\$ 223,989	\$ 391,983	\$ -	\$ -	\$ 43,013	\$ 8	\$ 2,604,615	\$ 4,517	\$ 7,371,190
Fuel taxes	-	-	-	-	-	-	-	-	-	-	-
Interest	152,603	17,801	16,089	14,199	-	19,638	17,026	4,551	182,006	301	424,214
Other	-	22,521	-	-	-	-	48,686	20,613	-	10,000	101,820
<b>Total revenues</b>	<b>4,255,668</b>	<b>40,322</b>	<b>240,078</b>	<b>406,182</b>	<b>-</b>	<b>19,638</b>	<b>108,725</b>	<b>25,172</b>	<b>2,786,621</b>	<b>14,818</b>	<b>7,897,224</b>
<b>Expenditures</b>											
Current:											
Economic development	-	38,290	231,185	286,045	-	-	-	-	-	-	555,520
Environmental protection	-	-	-	-	388,918	164,050	287,267	1,192,107	2,015,361	-	4,047,703
Culture & recreation	-	-	-	-	-	-	-	-	-	16,086	16,086
Individual rights	1,113,071	-	-	-	-	-	-	-	-	-	1,113,071
<b>Total expenditures</b>	<b>1,113,071</b>	<b>38,290</b>	<b>231,185</b>	<b>286,045</b>	<b>388,918</b>	<b>164,050</b>	<b>287,267</b>	<b>1,192,107</b>	<b>2,015,361</b>	<b>16,086</b>	<b>5,732,380</b>
Excess (deficiency) of revenues over (under) expenditures	3,142,597	2,032	8,893	120,137	(388,918)	(144,412)	(178,542)	(1,166,935)	771,260	(1,268)	2,164,844
<b>Other financing sources (uses)</b>											
Operating transfers in	2,380,961	497,178	399,735	136,987	500,000	491,819	504,057	1,209,807	4,638,699	18,533	10,777,776
Operating transfers out	(7,880,961)	(497,178)	(499,735)	(136,987)	-	(139,590)	(312,948)	(9,807)	(5,638,700)	(18,533)	(15,134,439)
<b>Total other financing sources (uses)</b>	<b>(5,500,000)</b>	<b>-</b>	<b>(100,000)</b>	<b>-</b>	<b>500,000</b>	<b>352,229</b>	<b>191,109</b>	<b>1,200,000</b>	<b>(1,000,001)</b>	<b>-</b>	<b>(4,356,663)</b>
<b>Net change in fund balances</b>	<b>(2,357,403)</b>	<b>2,032</b>	<b>(91,107)</b>	<b>120,137</b>	<b>111,082</b>	<b>207,817</b>	<b>12,567</b>	<b>33,665</b>	<b>(228,741)</b>	<b>(1,268)</b>	<b>(2,191,819)</b>
<b>Fund balances at July 1, 2002</b>	<b>3,891,516</b>	<b>497,178</b>	<b>496,717</b>	<b>254,858</b>	<b>-</b>	<b>158,081</b>	<b>677,873</b>	<b>(29,062)</b>	<b>6,042,963</b>	<b>16,575</b>	<b>12,006,699</b>
<b>Fund balances at June 30, 2003</b>	<b>\$ 1,534,113</b>	<b>\$ 499,210</b>	<b>\$ 405,610</b>	<b>\$ 374,995</b>	<b>\$ 111,082</b>	<b>\$ 365,898</b>	<b>\$ 690,440</b>	<b>\$ 4,003</b>	<b>\$ 5,814,222</b>	<b>\$ 15,307</b>	<b>\$ 9,814,880</b>

**The Department of Land and Natural Resources**  
**State of Hawaii**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -  
Nonmajor Governmental Funds  
for the year ended June 30, 2003 (continued)

	Subtotal brought forward	Na Ala Hele Park Development Fund	Sport-Fish Restoration Fund	Park Development and Operations Fund	State Parks Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Donations, Gifts and Grants Fund	OHA Kikakakoeka Trust Fund	Total Other Governmental Funds
<b>Revenues</b>										
General leases, licenses and permits	\$ 7,371,190	\$ 399,930	\$ 42,127	\$ -	\$ 1,632,273	\$ -	\$ -	\$ -	\$ -	\$ 9,445,520
Fuel taxes	-	227,200	-	-	-	-	-	-	-	227,200
Interest	424,214	15,561	997	6,381	171,341	-	-	-	46,225	664,719
Other	101,820	103,523	1,775	-	900,363	-	-	6,500	-	1,113,981
<b>Total revenues</b>	<b>7,897,224</b>	<b>746,214</b>	<b>44,899</b>	<b>6,381</b>	<b>2,703,977</b>	<b>-</b>	<b>-</b>	<b>6,500</b>	<b>46,225</b>	<b>11,451,420</b>
<b>Expenditures</b>										
Current:										
Economic development	555,520	-	-	-	-	-	-	-	-	555,520
Environmental protection	4,047,703	-	-	-	-	218,789	521	19,700	-	4,286,713
Culture & recreation	16,086	479,497	31,258	578,674	1,734,499	-	-	-	-	2,840,014
Individual rights	1,113,071	-	-	-	-	-	-	-	-	1,113,071
<b>Total expenditures</b>	<b>5,732,380</b>	<b>479,497</b>	<b>31,258</b>	<b>578,674</b>	<b>1,734,499</b>	<b>218,789</b>	<b>521</b>	<b>19,700</b>	<b>-</b>	<b>8,795,318</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,164,844</b>	<b>266,717</b>	<b>13,641</b>	<b>(572,293)</b>	<b>969,478</b>	<b>(218,789)</b>	<b>(521)</b>	<b>(12,200)</b>	<b>46,225</b>	<b>2,656,102</b>
<b>Other financing sources (uses)</b>										
Operating transfers in	10,777,776	280,331	17,329	571,312	1,762,118	162,289	-	-	-	13,571,155
Operating transfers out	(15,134,439)	(291,770)	(17,329)	(6,900)	(2,045,814)	(2,807)	-	-	-	(17,499,059)
<b>Total other financing sources (uses)</b>	<b>(4,356,663)</b>	<b>(11,439)</b>	<b>-</b>	<b>564,412</b>	<b>(283,696)</b>	<b>159,482</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,927,904)</b>
<b>Net change in fund balances</b>	<b>(2,191,819)</b>	<b>255,278</b>	<b>13,641</b>	<b>(7,881)</b>	<b>685,782</b>	<b>(59,307)</b>	<b>(521)</b>	<b>(12,200)</b>	<b>46,225</b>	<b>(1,271,802)</b>
<b>Fund balances at July 1, 2002</b>	<b>12,006,699</b>	<b>302,209</b>	<b>16,660</b>	<b>23,756</b>	<b>2,400,191</b>	<b>59,391</b>	<b>3,685</b>	<b>16,811</b>	<b>1,350,000</b>	<b>16,179,402</b>
<b>Fund balances at June 30, 2003</b>	<b>\$ 9,814,880</b>	<b>\$ 557,487</b>	<b>\$ 30,301</b>	<b>\$ 15,875</b>	<b>\$ 3,085,973</b>	<b>\$ 84</b>	<b>\$ 3,164</b>	<b>\$ 3,611</b>	<b>\$ 1,396,225</b>	<b>\$ 14,907,600</b>

**Department of Land and Natural Resources  
State of Hawaii**

Schedule of Expenditures of Federal Awards  
for the year ended June 30, 2003

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<b>U.S. Department of Agriculture</b>				
<b>Forest Service-</b>				
Forest Health Prevention & Suppression	10.664	00-DG-11052000-146	\$ 285,000	\$ -
Wildland Urban Interface Projects (Kokee)	10.664	01-DG-11052000-130	46,500	34,428
Cooperative Forestry Assistance	10.664	01-DG-11052000-150	182,450	-
Forest Health Management	10.664	01-DG-11052000-151	50,000	18,223
Forest Health Management Prevention and Suppression	10.664	01-DG-11052000-154	390,000	92,309
Hawaii Forestry & Communities Initiatives	10.664	01-DG-11052000-155	300,000	110,835
Urban & Community Forestry	10.664	01-DG-11052000-158	350,000	166,896
Forestry Incentives Program	10.664	01-DG-11052000-159	3,227	-
Cooperative Assistance - CARA	10.664	01-DG-11052000-161	150,000	52,963
Natural Resource Conservation Education	10.664	01-DG-11052000-174	15,000	5,128
Cooperative Fire Protection Program	10.664	01-DG-11052000-177	553,500	48,976
Conservation Education	10.664	02-DG-11052021-127	15,000	15,000
Urban & Community Forestry	10.664	02-DG-11052021-126	300,000	171,871
Forest Stewardship Program	10.664	02-DG-11052021-125	107,000	107,000
Forestry Incentive Program	10.664	02-DG-11052021-124	1,500	1,500
Cooperative Forest Health Protection	10.664	02-DG-11052021-123	60,000	32,521
Wildland Urban Interface	10.664	02-DG-11052012-119	115,500	88,733
Cooperative Forest Health Protection- Prevention & Suppression	10.664	02-DG-11052021-139	400,000	343,105
Cooperative Fire Protection Program	10.664	02-DG-11052012-149	500,000	350,000
Wildland Urban Interface	10.664	03-DG-11052012-045	227,672	-
			<u>4,052,349</u>	<u>1,639,485</u>
Hawaii Forestry & Communities Initiative	10.672	02-DG-11052021-162	250,000	181,355
Total U.S. Department of Agriculture			<u>4,302,349</u>	<u>1,820,840</u>
<b>U.S. Department of Commerce</b>				
<b>National Oceanic &amp; Atmospheric Administration-</b>				
Interjurisdictional Fisheries Act	11.407	NA-96FI0132	105,791	650
Revised Commercial Fishing Effort and Catch Assessment	11.407	NA-16FNI1594	53,349	20,131
Maintenance of Revised Commercial Fishing Effort & Catch Assessment Reporting System	11.407	NA-16FI2731	54,435	47,886
			<u>213,575</u>	<u>68,668</u>
Coral Reef Management	11.419	NA-07OZ0186	159,911	58,126
Comprehensive Plan to Prevent the Introduction Dispersal of Alien Aquatic Organism	11.419	NA-17OZ1121	65,505	60,576
Coral Reef Management	11.419	NA-17OZ1600	268,000	120,157
Hawaii Coral Reef Management Program	11.419	NA-16OZ2441	360,000	28,053
			<u>853,416</u>	<u>266,911</u>
Hawaii Coral Reef Monitoring	11.426	NA-17OA1535	179,760	29,933
Hawaii Marine Recreational Fishery Survey	11.437	NA-17FN1349	300,000	80,275
Collect and Provide Fisheries Data Under the Western Pacific Fisheries Information Network	11.437	NA-17FN1158	133,000	13,262
Pacific Fisheries Data Program	11.437	NA-17FN2307	121,000	70,453
			<u>554,000</u>	<u>163,990</u>
Marine Protected Areas	11.478	40-AA-NF-113067	98,000	70,415
Habitat Characteristics & Quality Assessment in Selected Site	11.478	40-AA-NC-113187	80,000	41,531
			<u>178,000</u>	<u>111,946</u>
Northwest Hawaiian Islands Coral Reef Ecosystems Reserve	11.UNK	MOA-2001-675	400,000	133,784
Total U.S. Department of Commerce			<u>2,378,751</u>	<u>775,232</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

**Department of Land and Natural Resources**  
**State of Hawaii**

Schedule of Expenditures of Federal Awards  
for the year ended June 30, 2003  
(continued)

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Defense</u>				
U.S. Department of the Navy- Kaho'olawe Rehabilitation Trust	12.UNK	12.UNK	\$26,379,100	\$ 4,283,276
Total U.S. Department of Defense			<u>26,379,100</u>	<u>4,283,276</u>
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Service -				
Kahului Boat Ramp	15.605	F-19-B-27	270,000	96,435
Kikiaola Small Boat Harbor, Kauai-Replace Loading Dock and Repair Boat Ramp	15.605	F-19-B-28	262,500	-
Freshwater Fisheries Research & Surveys	15.605	F-14-R-25	553,500	15,287
Waiānā SBH, Oahu-Repair Loading Docks	15.605	F-19-B-29	150,000	-
Statewide Marine Fisheries Development	15.605	F-12-D-26	665,000	4,285
Statewide Freshwater Fisheries Development	15.605	F-11-D-26	261,000	30,667
Aquatic Education	15.605	F-18-AE-15	180,000	24,313
Coordination of Statewide Sports				
Fish Restoration Program	15.605	F-13-C-26	33,750	-
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-26	27,000	-
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-26	60,000	(5,892)
Statewide Marine Research & Surveys	15.605	F-17-R-26	670,800	146,173
Freshwater Fisheries Research & Surveys	15.605	F-14-R-26	309,000	63,417
Manele Small Boat Harbor, Lanai - Boat Ramp Repair	15.605	F-19-B-30	360,180	360,165
Statewide Freshwater Fisheries Development	15.605	F-11-D-27	411,000	410,900
Statewide Marine Fisheries Development	15.605	F-12-D-27	626,445	492,535
Sport Fish Restoration Coordination	15.605	F-13-C-27	33,750	31,329
Freshwater Fisheries Research & Surveys	15.605	F-14-R-27	294,000	194,619
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-27	24,300	2,997
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-27	60,000	50,376
Statewide Marine Research and Surveys	15.605	F-17-R-27	547,500	369,468
Aquatic Resources Education	15.605	F-18-AE-16	198,000	170,674
Access Road Improvements, Manele Small Boat Harbor, Lanai	15.605	F-19-B-31	195,000	61,125
			<u>6,192,725</u>	<u>2,518,873</u>
Fish and Wildlife Service Restoration Act -				
Kaena Point coastal Ecosystem Restoration	15.611	122-000-G007	65,000	17,835
Kapuna Fence	15.611	122-000-G025	36,000	35,425
Hawaii Game Management Program	15.611	W-22-NG-7	608,661	110,905
Hawaii Non-Game Management Program	15.611	W-23-NG-7	211,760	-
Hunter Education Program	15.611	W-21-HS-26	249,465	-
Conservation Education Facility-Waimea Ulupalakua Ranch - Kanaio Fence and Habitat Restoration	15.611	FW-1-DE-1	857,000	3,646
	15.611	122001G012	50,000	-
Hawaii Hunter Education Program	15.611	W-21-HS-27	334,724	220,129
Hawaii Game Management Program	15.611	W-22-G-8	669,448	510,897
Hawaii Non-Game Management Program	15.611	W-23-NG-8	224,217	199,954
			<u>3,306,275</u>	<u>1,098,791</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.



**Department of Land and Natural Resources  
State of Hawaii**

Schedule of Expenditures of Federal Awards  
for the year ended June 30, 2003  
(continued)

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<b>U.S. Department of the Interior (continued)</b>				
<b>Fish and Wildlife Service -</b>				
Pouhala Marsh Protection & Restoration, Phase 2	15.614	C-2	260,000	125,638
Ilio Point Coastal Ecosystem Restoration, Phase 1	15.614	12200-1-G007	10,000	-
Mokulua Seabird Sanctuary Soil Stabilization	15.614	1220-01-G009	15,927	4,392
			<u>285,927</u>	<u>130,030</u>
Endangered Forest Bird Captive Propagation	15.615	14-48-0001-92-667	771,580	3,580
Statewide Endangered Wildlife Program	15.615	E-2-3	584,115	-
Statewide Endangered Plant Program	15.615	E-2-MP-2	451,010	-
Elepaio Predator Control	15.615	12200-1-G020	10,000	10,000
Statewide Endangered Wildlife Program	15.615	E-2-4	575,463	29,001
Statewide Endangered Plant Program	15.615	E-2-MP-3	492,962	175,169
Candidate Conservation Grants-Development of Candidate Conservation Agreements	15.615	E-4-CC-1	981,899	113,403
Recovery Land Acquisition Program Grants	15.615	E-6-RL-1	150,000	2,087
Habitat Conservation Plan Grants - Development of Habitat Conservation Plan	15.615	E-5-HP-1	517,134	29,939
Safe Harbor Grants - Development of Safe Harbor Agreements	15.615	E-3-SH-1	1,147,186	229,929
Endangered Maui Forest Bird	15.615	122002J002	114,316	104,774
Statewide Endangered Plant Program	15.615	E-2-MP-4	649,950	389,323
Statewide Endangered Wildlife Program	15.615	E-2-5	521,108	501,262
Native Dryland & Mesic Forest Protection & Restoration	15.615	U-2-M-1	501,270	-
			<u>7,467,993</u>	<u>1,588,467</u>
Statewide Clean Vessel Program	15.616	F-V-1-1	623,000	-
Development of New Techniques in Predator Control	15.617	P-2-D-1	43,000	3,756
Kaena Point Seabird Habitat Restoration	15.617	P-3-MP	50,000	1,870
			<u>93,000</u>	<u>5,626</u>
Construction of Tie-up Facilities for Transient Vessels at Honolulu Small Boat Harbor	15.622	Y-3-D-1	100,000	-
Construction of Tie-up Facilities for Transient Vessels at Maalaea Small Boat Harbor	15.622	Y-1-D-1	100,000	-
Construction of Tie-up Facilities for Transient Vessels at Nawiliwili Small Boat Harbor	15.622	Y-2-D-1	100,000	-
			<u>300,000</u>	<u>-</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

**Department of Land and Natural Resources  
State of Hawaii**

Schedule of Expenditures of Federal Awards  
for the year ended June 30, 2003  
(continued)

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (continued)</u>				
<u>Fish and Wildlife Service (continued) -</u>				
Hawaii Wildlife Conservation and Restoration Program	15.625	R-1-CMRE-1	\$ 358,683	\$ 245,409
Hawaii Wildlife Conservation and Restoration Program	15.625	R-2-RE-1	125,250	51,777
			<u>483,933</u>	<u>297,186</u>
State Wildlife Grant Program	15.634	T-1-P-1	236,060	18,799
State Wildlife Grant Program	15.634	T-2-1-1	389,940	70,834
			<u>626,000</u>	<u>89,633</u>
<u>National Park Service-</u>				
Fiscal Year 2001 Survey and Planning Grant	15.904	15-01-16411	566,773	56,678
Fiscal Year 2002 Survey and Planning Grant	15.904	15-02-17541	471,928	25,731
Fiscal Year 2003 Survey and Planning Grant	15.904	15-03-18211	467,056	420,350
			<u>1,505,757</u>	<u>502,759</u>
<u>Outdoor Recreation - Acquisition, Development and Planning</u>				
Lahaina Recreation Center Expansion	15.916	15-00139	300,000	300,000
Waihee Marsh Acquisition Project	15.916	15-00138	100,000	100,000
Makana Park Improvements	15.916	15-00140	190,000	190,000
Lanai Tennis/Basketball Court Improvements	15.916	15-00141	100,000	-
Wailea Restroom, Hapuna Beach State Recreation Area	15.916	15-00142	336,000	-
Lahaina Recreation Center Expansion Project	15.916	15-00143	220,000	-
Update of Statewide Comprehensive Outdoor Recreation Plan	15.916	15-00144	55,000	50,609
			<u>1,301,000</u>	<u>640,609</u>
Management & Conservation of Nene Habitat	15-ABN	H8080010002	85,500	26,516
Kuia Natural Area Reserve Fencing	15-UNK	1220-02-J015	25,000	12,095
Restore Lake House Reservoir - Pu'u Wa'awa'a	15-UNK	1220-02-G010	233,318	-
			<u>258,318</u>	<u>12,095</u>
State of Hawaii Drought Planning Assistance	15-UNK	03-FC-30-0002	50,000	-
State of Hawaii Conservation of Planning Assistance	15-UNK	02-FG-30-0015	50,000	14,250
			<u>100,000</u>	<u>14,250</u>
Total U.S. Department of the Interior			<u>22,629,428</u>	<u>6,924,835</u>
<u>U.S. Department of Justice</u>				
<u>Drug Enforcement Administration-</u>				
Statewide Marijuana Eradication Task Force	16.579	01-DB-3	150,000	-
Statewide Marijuana Eradication Task Force	16.579	99-DB-27A	210,000	210,000
Domestic Cannabis Eradication / Suppression	16.579	LOA 2002-49	395,000	219,460
Domestic Cannabis Eradication / Suppression	16.579	LOA 2003-47	346,000	96,278
Total U.S. Department of Justice			<u>1,101,000</u>	<u>525,738</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.



**Department of Land and Natural Resources**  
**State of Hawaii**  
 Schedule of Expenditures of Federal Awards  
 for the year ended June 30, 2003  
 (continued)

Federal Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<b><u>U.S. Department of Transportation</u></b>				
U.S. Coast Guard-				
National Recreational Boating Safety	20.005	13.01.15	\$ 725,748	\$ 579,142
National Recreational Boating Safety	20.005	12.01.15	1,645,701	483,267
			<u>2,371,449</u>	<u>1,062,409</u>
Federal Highway Administration-				
Recreational Trails	20.219	NRT NRT1(005)	530,532	96,677
Recreational Trails	20.219	NRT NRT1(006)	533,301	502,284
Recreational Trails	20.219	NRT NRT1(007)	533,643	-
			<u>1,597,476</u>	<u>598,961</u>
Total U.S. Department of Transportation			<u>3,968,925</u>	<u>1,661,370</u>
<b><u>Environmental Protection Agency</u></b>				
Alien Seaweed Eradication & Monitoring	66.461	CD-97918501-0	103,145	9,546
Lowland Forests for Ookala	66.651	SD-989089-01-0	95,270	18,142
Total Environmental Protection Agency			<u>198,415</u>	<u>27,688</u>
<b><u>Federal Emergency Management Agency</u></b>				
National Flood Insurance Program-				
Community Assistance Program	83.105	EMF-2002-GR-0212	50,000	8,679
Community Assistance Program	83.105	EMF-2003-GR-0339	92,602	35,978
			<u>142,602</u>	<u>44,657</u>
State Dam Safety Grant Program	83-550	EMW-2000-GR-0126	103,225	62,308
Disaster Assistance-				
Pre-Disaster Mitigation Project & Drought				
Hazard Analysis & Vulnerability				
Assessment	83.557	State CD PO#79292	75,000	19,581
Total Federal Emergency Management Agency			<u>320,827</u>	<u>126,546</u>
Total Federal Grants			<u>\$61,278,795</u>	<u>\$16,145,525</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

PART II

COMPLIANCE AND INTERNAL CONTROL

# Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards

Board of Land and Natural Resources  
State of Hawaii

We have audited the financial statements of the Department of Land and Natural Resources, State of Hawaii, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Compliance

As part of obtaining reasonable assurance about whether the Department of Land and Natural Resources, State of Hawaii's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of Hawaii Revised Statutes), and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance which we have reported to the management of the Department of Land and Natural Resources, State of Hawaii, in a separate letter dated April 28, 2004.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Land and Natural Resources, State of Hawaii's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Department of Land and Natural Resources, State of Hawaii, in a separate letter dated April 28, 2004.

This report is intended solely for the information and use of the management of the Department of Land and Natural Resources, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Alhamine Oyedokun & Koral CPA's, Inc.*

Honolulu, Hawaii  
April 28, 2004

# Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report on Compliance With Requirements  
Applicable To Each Major Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133

Board of Land and Natural Resources  
State of Hawaii

Compliance

We have audited the compliance of the Department of Land and Natural Resources, State of Hawaii, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Department of Land and Natural Resources, State of Hawaii's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department of Land and Natural Resources, State of Hawaii's management. Our responsibility is to express an opinion on the Department of Land and Natural Resources, State of Hawaii's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Land and Natural Resources, State of Hawaii's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department of Land and Natural Resources, State of Hawaii's compliance with those requirements.

In our opinion, the Department of Land and Natural Resources, State of Hawaii, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### Internal Control Over Compliance

The management of the Department of Land and Natural Resources, State of Hawaii, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Land and Natural Resources, State of Hawaii's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Department of Land and Natural Resources, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Alphonse Oyedemi & Horaki, CPAs, Inc.*

Honolulu, Hawaii  
April 28, 2004

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



**The Department of Land and Natural Resources  
State of Hawaii**

Schedule of Findings and Questioned Costs  
for the year ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements -

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes        x   no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes        x   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes        x   no

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes        x   no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes        x   none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

\_\_\_\_\_ Yes        x   no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

12.UNK

Kaho'olawe Restoration

15.605

Sport Fish Restoration

15.916

Outdoor Recreation, Acquisition, Development and Planning

**The Department of Land and Natural Resources**

**State of Hawaii**

**Schedule of Findings and Questioned Costs**

**for the year ended June 30, 2003**

**(continued)**

**Section I - Summary of Auditor's Results (continued)**

Dollar threshold used to distinguish between  
type A and type B programs:

\$ 484,366

Auditee qualified as low-risk auditee?

X

yes

           No

**Department of Land and Natural Resources**  
**State of Hawaii**  
Schedule of Findings and Questioned Costs  
for the year ended June 30, 2003  
(continued)

Section II - Financial Statement Findings

None

**The Department of Land and Natural Resources  
State of Hawaii**

Schedule of Findings and Questioned Costs  
for the year ended June 30, 2003  
(continued)

Section III - Federal Award Findings and Questioned Costs

None

**The Department of Land and Natural Resources**  
**State of Hawaii**  
Schedule of Prior Findings and Questioned Costs  
for the year ended June 30, 2003

Finding

Status

None